EDITORIAL

Knowledge Is Power

The creation of the corporate income tax was a burning issue that dominated the columns of *Music Trades* in 1909. Just as current businessmen rail against the unwanted intrusions of an alphabet soup of Federal agencies, their counterparts 87 years ago felt that their rights were being unfairly trampled by a levy on profits. What generated the most intense acrimony, however, was not the 3% corporate tax but the challenge of accurately calculating a profit.

Prior to 1909, even the largest businesses were operated on a strictly cash accounting basis, without a profit and loss statement and corresponding balance sheet. The sole measure of a company's financial health was the level of cash and finished goods inventory at year end. Arguing that the difficulties of calculating a profit made a corporate tax unworkable, *Music Trades* Editor John C. Freund wrote in 1909, ''Supplies charged are often not used for two or three years after the purchase. It is quite impossible to tell when they will be used in articles manufactured, or how to appropriately determine their cost...Tabulating profits with precision is simply an insurmountable task.''

Shortly after the corporate tax was enacted, businesses universally adopted the double-entry bookkeeping we now take for granted to calculate their profits. The corporate levy was a sore spot with *Music Trades* subscribers until the outbreak of World War I distracted them. Ironically, though, it unintentionally paved the way for major gains in corporate efficiencies. Armed with profit and loss statements and balance sheets for the first time, managers were better able to operate their businesses because they could precisely calculate the costs and potential benefits of their decisions.

In recent years computer technology has taken information quality to an even higher lever. The result has been efficiencies never before dreamed of. Among m.i. retailers, up-to-the-minute sales reports make it possible to manage inventory more effectively, which in turn makes it possible to profitably offer goods for sale at a lower price. To put this in perspective, a 1961 internal memo at Lyon & Healy in Chicago, then one of the country's largest retailers, warned, ''We face red ink if our gross margins drop below 46%.''

At the industry's diverse factories, better information about product processes has made it possible to solve quality problems and reduce costs. This helps explain why over the last 15 years the selling price of a U.S.-made Fender Stratocaster has remained constant.

As history shows, better information is the key to running a better business. In that spirit we offer the fifth edition of our Music Industry Census, a comprehensive review of industry sales that begins on page 84 of this issue. Calculating the business done in various product categories is a major challenge, given that ours is a fragmented industry dominated by secretive, privately held companies; however, we have consistently refined our methods and our data base, and the result in this issue is the most accurate ''numerical snapshot'' in industry history. Our ''Census'' report is supported by the Top 100, a sales ranking of the industry's largest suppliers.

Double-entry bookkeeping and computer inventory printouts didn't change the way businesses were run overnight, but by enhancing the knowledge of management, they had a dramatic effect over the long term. On a more modest scale, we hope that our Music Industry Census offers the type of improved information that will ultimately lead to more informed decisions at all levels.

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